Unemployment Insurance Reform

The Problem
The tax burden on Washington employers is unnecessarily high. Employers have cited unemployment insurance (UI) costs as a major factor in their decision to locate elsewhere. For example, Weyerhaeuser pays 13 times more for UI in Washington than it does for its operations in Georgia. Boeing has also indicated that in the 26 states where it does business, Washington's UI costs are the highest. Depending upon the measurement used, Washington employers pay between two and three times the national average for these benefits. Costs are high because benefits are high. Based on a generosity index developed by a national expert, Dr. Wayne Vroman, Washington ranked sixth in the nation from 1995 to 2004 for overall generosity of benefits.

The Solution
Washington needs a nationally equitable tax and benefit system for unemployment insurance. Costs must be reduced in order to keep our employers competitive. We want to provide more job opportunities and believe that our state's citizens would prefer keeping their jobs to receiving unemployment insurance benefit payments, even if those benefits are higher than in the past.

Background:
In 2003, the Legislature passed SB 6097, which made the following key changes:

- Created a new tax schedule to provide greater equity in accounting for socialized costs among employers. The new tax array was more focused on an employer's actual layoff experience.
- Capped rates at 6 percent for agriculture employers and the fishing industry, and imposed a cap of 6.5 percent for all other employers.
- Changed benefit calculations to base the payments on a claimant's annual earnings, rather than his or her two highest quarters of earnings (four-quarter averaging, rather than two-quarter).
- Provided benefits for a maximum of 26 weeks instead of 30 weeks, and froze the maximum benefit level until it reaches 63 percent of the average annual wage, instead of the previous 70 percent level.
- Made changes to disqualify more claimants who voluntarily quit their jobs or who commit acts of misconduct.

Four-quarter averaging was the final provision of the 2003 changes to take effect. While workers who worked in steady jobs year-round saw no drop in their benefits, claimants who only worked a portion of the year received a reduction in benefits when the state began to base benefit amount on their annual average wages. The state Department of Employment Security documented an average 7 percent reduction in benefits under four-quarter averaging.

Less than four months after the implementation of the four-quarter averaging provision, the Legislature suspended it in 2005 with HB 2255, and created a task force to study the system. HB 2255 rolled back the heart of the 2003 reforms by making the following changes, effective until July 1, 2007:

- Return to calculating benefits based on a claimant’s two highest quarters of earnings;
- Require that the act be liberally construed in favor of the claimant;
- Reduce the weekly benefit amount by approximately 4 percent for claimants who are full-time, year-round workers;
- Require that the difference in benefits paid to seasonal workers not be charged to the employer’s experience rating; and
- Cap the premium rate for agricultural and fishing employers at 5.4 percent.

Instead of increasing taxes to account for the increase in benefits, the legislation uses Reed Act money, an allocation of one-time money to the state’s UI system. This is clearly not sustainable. If the system continues as it is, the funding will run out and the state will need to increase taxes significantly.

The task force mandated by HB 2255 continues to meet and must provide any recommendations to the Legislature by Jan. 1, 2006.

SRC Goals
- Refuse to allow HB 2255 to become a permanent change;
- Give the 2003 UI reforms a fair opportunity to work;
- Create an equitable tax and benefit system that keeps Washington employers competitive; and
- Provide some relief to seasonal employers such as those in agriculture.